

Message Text

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ACTION ARA-14

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PASS TO LA/SA, MR. WEBER

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TAGS: EFIN, UY

SUBJ: GOU NEGOTIATES NEW BALANCE OF PAYMENTS LOAN

1. CENTRAL BANK PRESIDENT GIL DIAZ RECENTLY ADVISED AID REPRESENTATIVE THAT AGREEMENT HAS BEEN REACHED BETWEEN GOU AND A BANKING SYNDICATE HEADED BY BANK OF AMERICA AND BANK OF NOVA SCOTIA
XCG A \$60 MILLION LOAN WITH MATURITY AT FIVE YEARS AND INTEREST AT 1 7/8 PERCENT ABOVE LIBOR AND WITHOUT ANY GOLD PLEDGE. THIS LOAN WILL PERMIT THE GOU TO CANCEL A \$110 MILLION LOAN NEGOTIATED IN JULY 1975 WITH A SYNDICATE CO-MANAGED BY BANK OF AMERICA AND CITIBANK BUT WHICH INVOLVED PLEDGING 960,000 OUNCES OF GOLD. WITH CENTRAL BANK LIQUID RESERVES GROWING OVER THE PAST YEAR, (CURRENTLY ABOUT \$130 MILLION), AND RESPONDING TO SOME MILITARY PRESSURES, THE CENTRAL BANK HAD BEEN SEEKING TO ELIMINATE THE GOLD PLEDGE BUT KEEP OTHER LOAN TERMS AS ORIGINALLY NEGOTIATED. AFTER CITIBANK, THE PRINCIPAL MANAGER, REPORTEDLY REJECTED THE GOU PROPOSAL, BANK OF AMERICA AND NOVA SCOTIA PROPOSED TO ORGANIZE A NEW SYNDICATE TO FINANCE A \$60 MILLION LOAN WHICH, TOGETHER WITH CENTRL BANK RESERVES, WILL PERMIT THE GOU TO PAY OFF ITS OUTSTANDING DEBT (\$70 MILLION) UNDER THE LOAN PLUS PREPAYMENT PENALTY (\$1.05 MILLION), ALL
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OF WHICH WILL AMOUNT TO A NET CHARGE OF \$11.05 MILLION AGAINST RESERVES.

2. THE NEW SYNDICATE IS COMPOSED AS FOLLOWS:

BANK OF AMERICA	13.5 MILLION
BANK OF NOVA SCOTIA	13.5 MILLION
LLOYDS' BANK	6.0 MILLION

MANUFACTURERS TRUST	6.0 MILLION
REPUBLIC NATIONAL N.Y.	6.0 MILLION
WELLS FARGO	6.0 MILLION
NATIONAL BANK OF NORTH AMERICA	4.0 MILLION
IRVING TRUST	3.0 MILLION
MORGAN GUARANTY	2.0 MILLION
TOTAL	\$60.0 MILLION

3. THERE IS STILL A POSSIBILITY THAT CITIBANK MAY AGREE TO JOIN THE SYNDICATE WITH A \$10 MILLION CONTRIBUTION WHICH WILL RAISE THE TOTAL TO \$70 MILLION AND REDUCE DRAWDOWN OF GOU RESERVES.

4. COMMENT: GIVEN THE CENTRAL BANK IMPROVED RESERVE POSITION, IT WAS NATURALLY ANXIOUS TO ELIMINATE THE GOLD PLEDGE OF ITS PREVIOUS LOAN TO REFLECT ITS IMPROVED INTERNATIONAL CREDIT RATING. IT WAS ALSO PARTICULARLY ANXIOUS TO ENSURE THAT FUTURE BORROWING EFFORTS ARE NOT COMPLICATED BY OTHER BANKS ASKING FOR A SIMILAR GOLD PLEDGE AS WAS GIVEN IN 1975 WHEN THE GOU RESERVE SITUATION WAS NOT SO GOOD.
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